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IN THE

Supreme Court of the United States

OCTOBER TERM, 1967.

No. 1084

NATIONAL GYPSUM COMPANY AND
PLAZA PLASTERING COMPANY,
Petitioners,

vs.

UNITED STATES GYPSUM COMPANY,
Respondent.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT.

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February 5, 1968.

THE BLAKELY PRINTING COMPANY, CHICAGO

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UNITED STATES GYPSUM COMPANY,
Respondent.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT.

Petitioners pray that a writ of certiorari issue to review the judgment of the United States Court of Appeals for the Seventh Circuit entered October 2, 1967 and corrected December 21, 1967.

OPINIONS BELOW.

The oral opinions of the district court are not officially reported. They are included in the Appendix separately presented (App. 12-29, 30-50). The decision of the Court of Appeals for the Seventh Circuit is reported at ..... F. 2d ..... (7th Cir. 1967), 155 U. S. P. Q. 362, and is also included in the Appendix (App. 1-8).

JURISDICTION.

The judgment of the United States Court of Appeals for the Seventh Circuit was entered October 2, 1967 (App. 9). A timely petition for rehearing was denied on November 7, 1967. After a recall of the mandates, the judgment was corrected on December 21, 1967 (App. 10).

On January 4, 1968, this Court entered an order extending the time for filing this petition to February 5, 1968.

The jurisdiction of this Court is invoked under 28 U. S. C. § 1254(1).

QUESTIONS PRESENTED.

1) Is it a misuse of a patent to tie to the licensing of the patent the sale of an unpatented product?

2) Is it necessary to establish relevant market characteristics before a violation of § 1 of the Sherman Act is made out, where the patentee has tied the sale of an unpatented product which may be used in the patented process to a license under a patent?

3) Did the lower courts misinterpret the decree entered by the district court after the decisions in *United States* v. *United States Gypsum,* 333 U. S. 364 (1948) and 340 U. S. 76 (1950), which decree prohibited respondent from licensing its patents where the royalty is "imposed upon or measured by patent-free products, processes or uses," when it refused to equate "patent-free" and "unpatented", where the unpatented article can be used after sale in a patented process or product?

4) Did the court of appeals err in holding that it is not a *per se* violation of the antitrust laws to violate a decree entered to enforce the antitrust laws?

CONSTITUTIONAL PROVISIONS AND STATUTES INVOLVED.

United States Constitution:

U. S. CONST. art. I, § 8.

Statutes:

The Sherman Antitrust Act §§ 1, 2 and 3, 26 Stat. 209 (1890) as amended by 36 Stat. 1167 (1911), 50 Stat. 693 (1937), 15 U. S. C. §§ 1, 2 and 3 (1964).

The Clayton Act § 4, 38 Stat. 731 (1914), 15 U. S. C. § 15 (1964).

The Patent Act of 1952, § 271, 65 Stat. 792 (1952), 35 U. S. C. § 271 (1964).

The pertinent text of the constitutional provision and the above cited statutes is set out verbatim in the Appendix (App. 75-78).

STATEMENT OF THE CASE.

This case was commenced in the Northern District of Illinois by a complaint filed by United States Gypsum Company (hereinafter respondent) against National Gypsum Company and Plaza Plastering Company (hereinafter sometimes referred to as petitioners) charging infringement of U. S. patent No. 2,749,267. Petitioners answered that the patent was invalid and not infringed and counterclaimed that respondent, through its licensing practices, had violated the antitrust laws. The district court found the patent valid but not infringed and, in a separate opinion, that there had been no violation of the antitrust laws.

Respondent appealed the finding of non-infringement. Petitioners appealed the district court's failure to find the patent invalid and on the antitrust issues.

The court of appeals reversed on the question of in-

fringement, remanded the case for further findings on the question of validity and affirmed on the antitrust issues. A timely petition for rehearing was filed by defendants which petition was directed solely to certain issues involved in the question of validity. The petition for rehearing was denied on November 7, 1967.

This petition is directed solely to the antitrust issues raised by the counterclaim and related questions of patent misuse.

In August of 1940, the United States instituted a suit against respondent and various other defendants including petitioner, National, charging violation of sections 1, 2 and 3 of the Sherman Act (26 Stat. 209 (1890) as amended by 36 Stat. 1167 (1911), 50 Stat. 693 (1937), 15 U. S. C. sections 1, 2 and 3). The defendants in that case were found to have conspired to fix prices on gypsum board and gypsum board products under patents held by respondent. It was found that:

> "Since its organization in 1901, United States Gypsum has been the dominant concern in the gypsum industry. . . . By development and purchase it has acquired the most significant patents covering the manufacture of gypsum board. . . ." *United States* v. *United States Gypsum Company,* 333 U. S. 364, 368 (1948).

Defendants there were also charged with conspiracy to fix prices on unpatented gypsum products and

> "to standardize gypsum board and its method of production for the purpose of eliminating competition and to regulate the distribution of gypsum board by eliminating jobbers and fixing resale prices of manufacturing distributors." *Id* at 367.

After extended litigation in which the charged conspiracy was established and condemned, the cause was remanded to the United States District Court for the District of

Columbia. Ultimately, a decree was entered* directing respondent to grant licenses on all patents "relating to gypsum board, is processes, methods of manufacture or use ... issued to, applied for, or acquired by" it within five years after the date of the decree (Article II, para. 4; App. 54). Respondent was permitted to charge a reasonable, non-discriminatory royalty "which royalty may not be imposed upon or measured by patent-free products, processes or uses. . . ." (Article VI, para. 2(b); App. 58-59.)

The patent issued from an application filed on April 7, 1953 as a continuation of an application filed March 30, 1950. It contains 5 claims of which claims 1 and 5 are representative.

> "1. The combination with wallboards attached to a support and having edges in substantially abutting relationship forming a wallboard joint, of a strong thin cellulosic strip having perforations throughout with diameters from about 0.02 inch to 0.002 inch, said strip being adhesively secured over said joint and the edges of said wallboards adjacent thereto.
>
> "5. The method of covering the joint between adjacent wallboards which comprises adhesively securing over said joint a strip of strong paper provided with substantially uniformly arranged spark-produced perforations having diameters from about 0.02 inch to 0.002 inch to permit the escape of air entrapped beneath said strip while substantially preventing the escape therethrough of adhesive employed to secure the strip in place."

The tape used in the patented method and combination has frequently been referred to as "spark-perforated tape" because the minute perforations may be made by burning holes through paper tape by means of electric sparks.

The use of tape to cover the joints between adjacent pieces of wallboard is almost as old as the use of wallboard

* The decree of May 15, 1951 is set out in the Appendix (App. 51-63).

itself. Since the 1920's, a myriad of tapes have been used including strips of loosely woven cloth, metal strips, metal strips with holes, a cloth commonly referred to as "balloon cloth," paper tape with large holes, plain paper tape and spark-perforated tape.

Respondent's original patent application was directed to the spark-perforated tape *per se* and to the machine for making the tape. Claims covering the tape *per se* were rejected by the Patent Office and finally abandoned by respondent.

Respondent does not make or sell the combination set out in its patent. Nor does it perform the method claimed therein. It sells spark-perforated tape with each roll bearing the statement:

> "Licensed For Use In Wallboard Construction Covered By Pat. No. 2,749,267."

Respondent has never granted a direct license to any user of the patented process. Instead, it controls the market for unpatented tape by licenses to manufacturers of the unpatented tape who are required to include on each roll of tape the legend "Licensed for use under patent No. 2,749,267." Respondent has granted licenses to two such manufacturers, The Marvan Corporation and Evon Industries, Inc., calling for royalties based on "tape used, or sold for use, in said invention. . . ." The "tape shall be considered as sold when delivered or shipped by Licensee to purchasers, or when paid for if paid for before delivery." A copy of the Evon license, identical to the Marvan license, is included in the Appendix (App. 69-75).

By the purchase of tape from respondent or one of its licensees, the purchaser obtains the right to perform the method and make the combination. No royalty rate is stated, and the royalty from the maker of the tape, but not

from the patent user, is graduated. The purchaser is not informed that if he wishes to purchase the tape elsewhere he can obtain a license separately. There is no evidence that respondent has ever licensed "others who desire to use tape not produced" by it, although the court of appeals ruled otherwise (App. 7). The only way an end user has ever obtained a license to practice the patented method and make the patented combination is through the purchase of tape from respondent or one of its licensees. Each of the licensees may only grant rights to practice the invention to purchasers of its tape.

Petitioners charged that the scheme was not only a misuse of the patent making the patent unenforceable, but that it was a tying arrangement unlawful under the antitrust laws.

It is not clear from the district court's opinion whether that decision disposed of all the misuse issues, possibly because the district court held the patent not infringed and, consequently, the issue of enforceability of the patent was moot. It dismissed petitioners' antitrust counterclaim on the ground that even if the activity constituted misuse or a violation of the decree of May 15, 1951, there was no antitrust violation as petitioners failed to prove intent to monopolize, power to monopolize, elements of the relevant market, and a dangerous probability of accomplishing a monopoly.

Petitioners appealed arguing that the district court erred in requiring such proof since each of those elements was established in a tying arrangement involving a patented tying combination and an unpatented tied element used in the combination. The related misuse question was also argued in response to respondent's appeal on the question of infringement.

The decision of the court of appeals is devoid of any

reference to the tying arrangement as an antitrust violation. It apparently ruled that the activity was not a misuse because "it appears that plaintiff does license others who desire to use tape not produced by plaintiff" (App. 7). As set out above, this statement has no basis in the record.

REASONS FOR GRANTING THE WRIT.

1. LICENSES TYING UNPATENTED SUPPLIES TO PATENTED COMBINATIONS WERE NOT DECLARED LAWFUL BY THE PATENT ACT OF 1952.

The opinions below are illustrative of the confusion existing in the federal courts in the treatment of matters involving patent licenses and in defining the relationship between patent misuse and violations of the antitrust laws. This Court has not heard a case involving patent tie-in arrangements since the enactment of the Patent Act of 1952 (66 Stat. 792 (1952), 35 U. S. C. §§ 1-293). In the interim, decisions have held that § 271 of the Act negated the ruling of misuse laid down by this Court in *Mercoid Corp.* v. *Mid-Continent Invest. Co.*, 320 U. S. 661 (1943), *e.g.*, see *Buxton, Inc.* v. *Julen, Inc.*, 223 F. Supp. 697, 700 (S. D. N. Y. 1963), while writers have opined that § 271 left the law of misuse intact and reinstated the law of contributory infringement as it existed prior to *Mercoid*. Turner, *The Validity of Tying Arrangements Under the Antitrust Laws*, 72 HARV. L. REV. 50, 68 n. 50 (1958). Also see, *Dr. Salsbury's Labs* v. *I. D. Russell Co. Labs.*, 212 F. 2d 414 (8th Cir. 1954), cert. den'd. 348 U. S. 837 (1954).

In *Mercoid*, the Court found "a misuse of the patent privilege and a violation of the antitrust laws" where the owner of a combination patent and its exclusive licensee granted the right to use the combination only to those who

purchased an unpatented element of the combination from the licensee. 320 U. S. at 670.

Subsequently, in the Patent Act of 1952, Congress enacted 35 U. S. C. § 271 for the purpose "of overruling any blanket invalidation of the doctrine [of contributory infringement] that could be found in the *Mercoid* opinions." *Aro Mfg. Co.* v. *Convertible Top Replacement Co.*, 377 U. S. 476, 492 (1964).

The decisions below in effect hold that § 271 overrules the doctrine of *misuse* as set out in *Mercoid*.

In *Mercoid*, when discussing the *patentee's* right to control unpatented material, the Court found that it made no difference if the unpatented material be the " 'heart of the invention' or the 'advance in the art'," 320 U. S. at 667. Control of such material was *misuse*.

35 U. S. C. § 271(c), in defining *contributory infringement*, encompasses the sale of components "constituting a material part of the invention," thereby codifying the earlier judge-made law of contributory infringement and undoing any invalidation of the doctrine that may have resulted in *Mercoid*.

The argument that § 271 was intended to extend a patent's scope to embrace the unpatented "heart of the invention" and thus increase the patentee's immunity from the antitrust laws and the effects of a holding of misuse, however, ignores the constitutional provision from which the patent laws emanate.* The offense in adopting such a construction is no more evident than in the present case.

The Patent Office rejected respondent's attempt to obtain

* The district court here held: "Consequently, after 1952, it became lawful to extend certain monopoly rights over certain unpatented articles, provided such articles constituted a material part of the invention, and were not staple articles or commodities of commerce suitable for substantial noninfringing uses." (App. 44.)

a patent on spark-perforated tape *per se*, thereby establishing that there was no "invention" in spark-perforated tape.

Article I, § 8 of the Constitution states in part:

> "The Congress shall have the power . . . to promote the progress of science and useful arts, by securing for limited times to . . . . inventors the exclusive right to their . . . discoveries."*

The refusal of the Patent Office to grant a patent on spark-perforated tape removes spark-perforated tape from the area excluded by the Constitution from our overriding anti-monopoly policy. There being no "invention" in spark-perforated tape there can be no patent monopoly or "exclusive right" awarded to it.

Respondent, although it was unable to patent the tape, and unless prohibited here, is in a position of being able to monopolize the tape as if it had. It is submitted that such a prohibition is in keeping with § 271(d) but to the extent § 271(d) appears to sanction such an enlargement of the patent grant, it should be declared unconstitutional.**

Respondent has attempted to counter petitioners' assertion that 35 U. S. C. § 271 had no effect on the law of misuse and related antitrust violation by arguing that § 271(d) is expressly to the contrary.

Actually, the rule of § 271(d)(1) that it will not be misuse if the patentee "derived revenue from acts which if performed by another without his [the patentee's] consent would constitute contributory infringement of the patent" is inapposite.

Petitioners do not complain of the fact that respondent *sells* spark-perforated tape even if the selling of such tape

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* In *Morton Salt Co.* v. *G. S. Suppiger Co.*, 314 U. S. 488, 492 (1942), the Court substituted " 'new and useful' inventions" for "discoveries" when quoting the constitutional provision.

** 28 U. S. C. A. § 2403 may, consequently, be applicable. The courts below have not certified to the Attorney General that the constitutionality of this section was drawn in question.

by others constitutes contributory infringement. Respondent, however, licenses the patent only when unpatented tape is purchased from a specified source. A purchaser of the unpatented tape has to pay a built in but unknown royalty no matter what he chooses to do with the tape. He gets no refund if the tape is destroyed or shipped from the country. It is this tying arrangement that constitutes an unlawful extension of the monopoly, *i.e.*, a misuse.

Nor does 35 U. S. C. § 271(d)(2) provide the exemption respondent seeks. That section relates to a license "to perform acts" which would otherwise "constitute *contributory infringement*". (Emphasis added.) The license respondent grants with the sale of tape is to perform acts, which if performed without respondent's consent, would constitute *direct* infringement, not contributory infringement.

In the *Salsbury* case, 212 F. 2d at 416-417, the court expressly held that the new law made no change in the law of misuse and equated "staple" article with "unpatented" in the application of that doctrine.

Although petitioner has argued repeatedly below, as here, that it is not necessary to show a non-infringing use of spark-perforated tape to make out a case of misuse, petitioners did introduce a considerable amount of evidence showing that spark-perforated tape did indeed have substantial non-infringing uses. Neither court ruled, however, on the question of whether if it was necessary to show non-infringing uses to establish misuse, such uses had been established.

The ruling of the court of appeals appears to require establishing an antitrust violation before misuse can be made out. This is clearly not the standard. *Morton Salt Co.* v. *G. S. Suppiger*, 314 U. S. 488 (1942).

2. A TYING ARRANGEMENT INVOLVING A PATENT IS A PER SE VIOLATION OF § 1 OF THE SHERMAN ACT.

There exists a substantial diversity of opinion as to what is or should be required to prove an antitrust violation in tie-in cases involving patents. For example, a majority of the members of the committee involved in the preparation of THE REPORT OF THE ATTORNEY GENERAL'S NATIONAL COMMITTEE TO STUDY THE ANTITRUST LAWS, at 238 (1955), were opposed "to the apparent trend" to per se illegality,* while other writers support the per se rule. See Diggins *The Patent-Antitrust Problem,* 53 MICH. L. REV. 1093, 1103 (1955) and Turner, *The Validity of Tying Arrangements Under the Antitrust Laws,* 72 HARV. L. REV. 50 (1958).

Respondent's licensing practice draws to it an advantage in the market place not intended by the patent grant. This advantage exists even though the purchaser may not use the tape in accordance with the patent, since he is in effect gaining a license to the patent, with all its accompanying peace of mind, whether he uses that license or not. He is forced to take a license whether he uses the patent or not—even if he merely ships the tape out of the country. No refund is provided for where he does not use the patent. The user is not informed what the license fee is nor can he get a license except by buying the unpatented tape.

This method of doing business denies competitors free access to the market for spark-perforated tape, the tied product, not because respondent has a better product or a lower price, but because of its leverage over the patented combination and method. Buyers are forced to forego their free choice between competing products. The practice is unlawful under § 1 of the Sherman Act. *Northern Pacific Ry. Co.* v. *United States,* 356 U. S. 1, 5-6 (1958).

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* Also see Oppenheim, *Patents and Antitrust: Peaceful Coexistence,* 54 MICH. L. REV. 199, 213-14 (1955).

The district court, in dismissing the antitrust counterclaim, said:

> "Even if the decree were violated as defendants suggest, and even if spark-perforated tape has substantial noninfringing uses, this may be proof of misuse but this in no way proves any of the elements of monopolization or attempt to monopolize, as is required by Kobe."
>
> "There is no proof of an unlawful intent to monopolize outside its patent rights nor is there proof of power to so monopolize.
>
> "There is no evidence of plaintiff's position in the relevant market, whether the market includes all types of tape or only spark-perforated tape. There is no evidence of an unlawful combination or conspiracy as was found in *Dairy Foods, Incorporated* v. *Dairy Maid Products Coop,* 297 Fed. 2d 805, nor is there evidence of a dangerous probability of accomplishing a monopoly except that which is permitted by the patent.
>
> "There is no evidence of a specific intent to monopolize." (App. 47-48.)

The above quoted standard is contrary to the prevailing authority.

In *International Salt Co.* v. *United States,* 332 U. S. 392 (1947), an antitrust violation was established where International tied supplies of salt tablets to the leasing of its patented tablet dispensing machine. International's market position was not considered. In fact, the district court had assumed that licensees could obtain competitive machines, *United States* v. *International Salt Co.,* 6 F. R. D. 302, 307 (S. D. N. Y. 1946).

The distinctiveness of a patented product is sufficient to establish the necessary control over the tying device. *United States* v. *Paramount Pictures, Inc.,* 334 U. S. 131, 158 (1948).

In commenting on *International Salt, Paramount* and *United States* v. *Columbia Steel Co.,* 334 U. S. 495 (1948)

Professor Turner in his article *The Validity of Tying Arrangements Under the Antitrust Laws*, 72 HARV. L. REV. 50, 51 (1958) stated:

> "For if anything has become clear in the law on restraint of trade, it is that a tie-in to a patented product or process is virtually illegal per se, whether the Clayton Act or Sherman Act is applied."

What would seem to have been a final endorsement of this position was enunciated in dicta in *United States* v. *Loew's, Inc.*, 371 U. S. 38, 45, 46 (1962). When ruling on the legality of block-booking copyrighted motion pictures, the Court alluded to the analogous patent situation saying:

> "The patentee is protected as to his invention, but may not use his patent rights to exact tribute for other articles.
>
> "Since one of the objectives of the patent law is to reward uniqueness, the principle of these cases was carried over into antitrust law on the theory that the existence of a valid patent on the tying product, without more, establishes a distinctness sufficient to conclude that any tying arrangement involving the patented product would have anticompetitive consequences."

Further, where the tying product is patented, "sufficiency of economic power is presumed." 371 U. S. 45, n. 4.

Petitioners argued that *Loew's* was controlling in support of its counterclaim for antitrust violations. The district court, however, in dismissing the counterclaim rejected *Loew's* stating:

> "It is not clear what is meant by a 'tying product.' It could include a material component of an invention not a staple article of commerce suitable for no substantial non-infringing use. In any event, interpolating upon the language of the Supreme Court, it is doubtful that the existence of a valid patent on the tying process, without more, establishes a distinctiveness sufficient to conclude that any tying arrangement, and

> I would underline the word 'any,' between the patented process and a material component of the process, not a staple article of commerce suitable for no substantial non-infringing use, constitutes a per se antitrust violation. *The Loew's case must be read in its context.*" (Emphasis added) (App. 41-42.)

The authority of *Loew's* was again relied upon by petitioners in the court of appeals. Respondent attempted to refute that authority arguing, as it had below, that petitioners had not produced evidence concerning the relevant market and that *Loew's* was distinguishable since it "was not a patent case." Reply and Answering Brief of Plaintiff-Appellant-Appellee, at 73, 74. The court of appeals did not rule on the issue. However, in *Hazeltine Research, Inc.* v. *Zenith Radio Corp.*, ... F. 2d..... (7th Cir. 1967). 156 U. S. P. Q. 229, a decision handed down shortly after the decision in this case, the same court held:

> "There is no merit in HRI's contention that the misuse of its patents, including the one in suit, furnishes no basis for an award of treble damages. The requisite anti-competitive effect is presumed where the tying product is patented. *International Salt Co.* v. *United States,* 332 U. S. 392 (1947). See *United States* v. *Loew's, Inc.,* 371 U. S. 38, 45 (1962). Zenith's expenses in defending the infringement suit brought pursuant to HRI's antitrust violations are a proper subject of threefold recovery. *Dairy Foods, Inc.* v. *Dairy Maid Prod. Cooperative,* 297 F. 2d 805, 809 (7th Cir. 1961)."

It having been established that the only way any end user of spark-perforated tape has ever obtained a license under the patent is by purchase of tape from respondent or one of its licensees, it follows, without more, that respondent has violated § 1 of the Sherman Act.

Under § 4 of the Clayton Act (38 Stat. 731 (1914), 15 U. S. C. § 15) "any person . . . injured in his business or property by reason of anything forbidden in the antitrust

laws . . . shall recover threefold the damages by him sustained, and the cost of suit, including a reasonable attorney's fee."

Petitioner, National, was presented with the alternative of either entering into license arrangements which it considered unlawful or in incurring the expenses that accompanies a patent infringement case. Either alternative had an adverse economic result. See *Dairy Foods Inc.* v. *Dairy Maid Prod. Cooperative,* at 808. Had petitioners chosen to indulge in the conspiracy created by entering into the license arrangements required by respondent, it would at least have had to pay a royalty to respondent, the obvious consequence of which would have been to reduce National's profit by either loss of sales because of increased selling price or reduced profit margin. The alternative chosen has resulted in damages incurred in the defense of the complaint filed by respondent.

3. RESPONDENT HAS VIOLATED THE DECREE OF MAY 15, 1951.

As is more fully set out in the Statement Of The Case, at 4-5, the Government spent almost 11 years attacking and attempting to undo the injury resulting from the scheme fostered by respondent in conjunction with the licensing of its patents. See *United States* v. *United States Gypsum Co.,* 53 F. Supp. 889 (D. D. C. 1943); 67 F. Supp. 397 (D. D. C. 1946); 333 U. S. 364 (1948); 339 U S. 960 (1950); 340 U. S. 76 (1950). The decree that finally resulted from that litigation on May 15, 1951 was the subject of at least three other decisions: *United States* v. *United States Gypsum Co.,* 124 F. Supp. 573 (D. D. C. 1954); *United States* v. *United States Gypsum Co.,* 134 F. Supp. 69 (D. D. C. 1955); and *United States Gypsum* v. *National Gypsum Co.,* 352 U. S. 457 (1957).

Apparently, this overwhelming amount of litigation has

not completely defined just what practices respondent was forbidden from performing.

There appears to be no controversy that as the result of the decree of May 15, 1951, respondent was directed to grant licenses on all patents issued to, applied for or acquired by it within five years after the date of the decree "relating to gypsum board, its processes, methods of manufacture or use. . . ." (Article II, para. 4, App. 54.) Respondent was permitted to charge a reasonable non-discriminatory royalty "which royalty may not be imposed upon or measured by patent-free products, processes or uses. . . ." (Article VI, para. 2, App. 58-59.)

Petitioners charged that respondent's agreements with Marvan and Evon, calling for a royalty based on their sales of tape are, in effect, a "royalty . . . imposed upon or measured by patent-free products" and, consequently, in violation of the decree.

Respondent argued that there was no violation of the decree because spark-perforated tape is not "patent-free" and does not relate to the use of gypsum board.

Neither court below passed on the question of whether spark-perforated tape related to the use of gypsum board. The district court, however, ruled that spark-perforated tape was not "patent-free" and the court of appeals affirmed. The question regarding the construction of the term "patent-free" is that upon which review is here sought.

As the district court noted, "extensive research fails to disclose any legal definition that has been attached to" patent-free. Its use in the "*Gypsum* cases" of the 1940's is apparently its first and only use. Any argument regarding the meaning of the term must, therefore, be based on what remedial effect was intended as a result of the decision that respondent's licenses had regimented the industry.

> "A trial court upon a finding of a conspiracy in restraint of trade and a monopoly has the duty to compel action by the conspirators that will, so far as practicable, cure the ill effects of the illegal conduct, and assure the public freedom from its continuance." *United States* v. *United States Gypsum,* 340 U. S. at 88.

Petitioners contend that "patent-free" is synonymous with unpatented. Respondent, on the other hand, argues that "patent-free" means an unpatented product that is neither made by a patented machine or process or used in connection with a patented combination or method, i. e., it means an unpatented product not related to a patent.

The first use of the term "patent-free" appears in the first Supreme Court decision in the *Gypsum* cases, 333 U. S. at 400 wherein the Court stated:

> "Patents grant no privilege to their owners of organizing the use of those patents to monopolize an industry through price control, through royalties for the patents drawn from *patent-free* industry products and through regulation of distribution. Here patents have been put to such uses as to collide with the Sherman Act's protection of the public from evil consequences. *United States* v. *National Lead Co.,* 332 U. S. 319, 327, 91 L. ed. 2077, 2089, 67 S. Ct. 1634; *Hartford-Empire Co.* v. *United States,* 323 U. S. 386, 406, 89 L. ed. 322, 358, 65, S. Ct. 373; *Standard Oil Co.* v. *United States,* 283 U. S. 163, 170, 174, 75 L. ed. 926, 947, 51 S. Ct. 421; *Standard Sanitary Mfg. Co.* v. *United States,* 226 U. S. 20, 57 L. ed. 107, 33 S. Ct. 9." (Emphasis added.)

Most significantly, the cases cited by the Court as examples of situations where royalties for patents have been drawn from "patent-free" industry products all involve products that were *made by* a patented machine or process. In the *National Lead* case, the Court quoted the finding of the district court:

> "'The defendants NL, DP and Tinc have utilized their patents which relate to the manufacture and use

> of titanium pigments to control and regulate the manufacture and sale of titanium pigments and compounds in the United States. . . .' " 332 U. S. at 327.

In *Hartford-Empire,* the Court condemned the use of patents on glass-making machinery "to maintain prices of unpatented glassware:" 323 U. S. at 407.

In *Standard Oil,* control was exerted over unpatented gasoline produced by patented cracking processes. 283 U. S. at 174.

It is obvious, therefore, that as used by the Supreme Court, the term "patent-free" does not carry the meaning ascribed to it by respondent.

That the decree was intended to prohibit more than just the type of licenses that had been condemned was made clear by the Court when it reviewed the district court's first decree after remand. The decree

> "is not limited to prohibition of the proven means by which the evil was accomplished, but may range broadly through practices connected with acts actually found to be illegal." 340 U. S. at 88-89.

And

> "Acts in disregard of law call for repression by sterner measures than where the steps could reasonably have been thought permissible. We turn then to the Government's proposals for modification of the decree on the assumption that only a violation through concerted industry license agreements has been proven, but recognizing, as is conceded by defendants, that relief, to be effective, must go beyond the narrow limits of the proven violation." 340 U. S. at 89-90.

The most often used arrow in respondent's quiver has been that "patent-free" could not mean unpatented because the court that entered the decree also approved an interim license (App. 64-68) which allowed for the basing of royalties on products made by a patented process and, sup-

posedly under the definition of "patent-free" advanced by petitioners, the court-approved interim license would itself be in violation of the decree.

Whether or not this is the case is at its very best speculative. It is perhaps of interest to note that the interim license was submitted to the district court on the day the decree was approved.* The ambiguity that now exists through the use of the term "patent-free" and the effect that the interim license may have had on the construction of that term may have been so subtle as to escape comment.

In any event, and whether or not the district court intended to limit the Supreme Court's definition of "patent-free" by the interim license, it cannot be argued that the district court's "approval" to allow respondent to measure royalties by products *made by* a patented process is consent to allow respondent to measure royalties by products *used in* patented combinations such as in the present case where the unpatented spark-perforated tape can be *used in* the combination and method covered by respondent's patents.

It is evident, therefore, that the decree of May 15, 1951, by prohibiting the measuring or imposing of a royalty on "patent-free products, processes or uses" forbids respondent from basing the royalty for licensing its patent on the sale of spark-perforated tape.

Violation of the decree should at least result in the unenforceability of respondent's patent. See *American Securit Co.* v. *Shatterproof Glass Corp.*, 154 F. Supp. 890, 896 (D. Del. 1957), aff'd 268 F. 2d 769 (3rd Cir. 1959).

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*The record of that case indicates that a copy of the license may have been attached to the decree and submitted to the court ten days earlier. However, there is no indication that the interim license was considered or discussed by the court.

4. THE VIOLATION OF THE DECREE CONSTITUTES A VIOLATION OF THE ANTITRUST LAWS FOR WHICH RESPONDENT IS LIABLE FOR DAMAGES.

It is petitioners' position that respondent's violation of the May 15, 1951 decree, which decree was entered to remove the anti-competitive effects of respondent's licensing schemes, is a direct trespass on the monopoly area defined by this Court.

The elements of proof required by the trial court were established in the first decision by the Supreme Court in the *Gypsum* cases. As it was stated in the second Supreme Court hearing of the matter, the decree was to "cure the ill effects of the illegal conduct, and assure the public freedom from its continuance." 340 U. S. at 88.

The violation of the decree, therefore, admits to the rebirth of the illegal conduct, particularly where the violation is capable of causing the same "ill effects." Consequently, the violations of the antitrust laws found before are the same violations now charged.

Had petitioner, National, taken the same license offered to Marvan and Evon it would have been in the same co-conspirator position that it was in the *Gypsum* cases, and once again respondent would have been well on its way to regimenting the industry. As was stated above in the discussion of damages, petitioners were faced with the unhappy choice of taking the license or defending the lawsuit. Where the choices are dictated by a violation of the antitrust laws, respondent should be liable for the damages incurred.

CONCLUSION.

For the reasons set forth above, petitioners respectfully request that a writ of certiorari issue to review the decision of the Seventh Circuit Court of Appeals.

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